

IMPROVING TAXATION E-COMMERCE IN UZBEKISTAN

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ABSTRACT

This article discusses the features of taxation of e-commerce in Uzbekistan, outlines the existing problems, and also offers suggestions and recommendations on improving the taxation mechanism in the country based on international experience.

KEYWORDS: *E-Commerce, Digital Economy, E-Commerce Entities, E-Commerce Taxation, Tax Administration, National Tax System, Tax Jurisdiction, National Tax Jurisdictions, Double Taxation*

INTRODUCTION

The accelerated growth of e-commerce in recent years has shown that the formation of an effective taxation mechanism for e-commerce entities, taking into account that the peculiarities of electronic business on the global Internet is one of the most important issues related to the growth of tax revenues to the state budget.

According to Forbes magazine¹, seven of the ten most expensive companies in the world (Amazon Inc., Microsoft, Alphabet Inc., Apple Inc., Facebook, Tencent, Ali Baba Group) operate in the field of information technology and offer various services on the Internet. Of these, Amazon Inc. (802.2 billion US dollars), Facebook (413.3 billion US dollars), Tencent (400.9 billion US dollars), Ali Baba Group (392.3 billion US dollars) are directly involved in e-commerce.

Recognizing the benefits of e-commerce and its growth rate today (figure 1), this development is also closely associated with the difficulty of ensuring adequate financial control.

The growing number of financial investigations against digital giants such as Google, Amazon, Apple and Facebook suggest that the ICT sector is most directly involved in aggressive tax planning, which makes it possible for the largest companies in the world to reduce tax payments to almost zero².

In Uzbekistan, measures taken to introduce and develop modern information and communication technologies are aimed at digitalization of economic sectors, including electronic commerce. It is known from international experience that e-commerce has a positive impact on the country's economy, and also creates a number of problems. The taxation of e-commerce enterprises is one of the problems.

¹ URL: <https://www.forbes.ru/tegi/reyting-forbes-2019>

² Pekarskaya A.Y. Features of control over taxation in the conditions of the development of the digital economy // Belarusian Economic Journal. 2018. №1. P. 84-96.

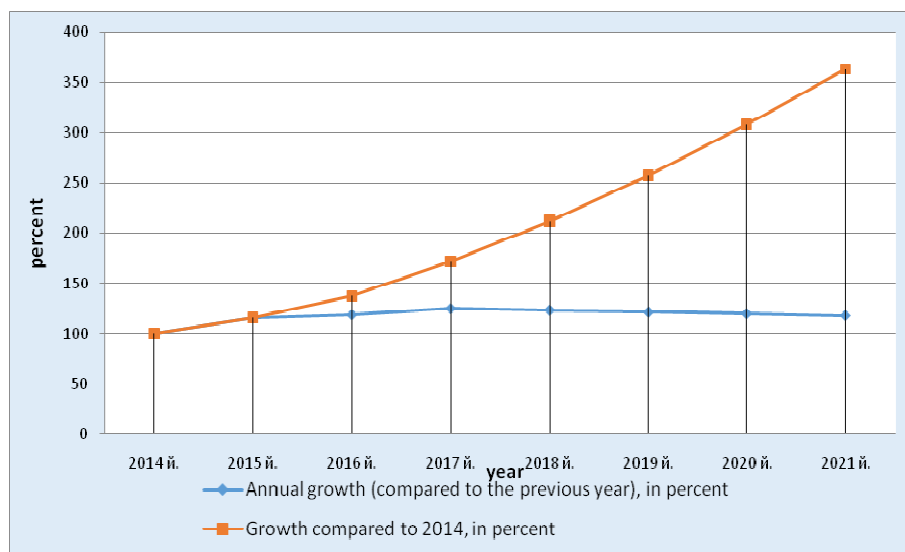


Figure 1: Worldwide E-Commerce Trend (for 2014–2021 years, in percent).

By the Decree of the President of the Republic of Uzbekistan dated July 18, 2017 “On measures to radically improve tax administration, increase tax collection and other mandatory payments” it was established that one of the main directions for further improvement of tax legislation and tax administration in Uzbekistan is the introduction of effective mechanisms of taxation and trade control and Internet services.

LITERATURE REVIEW

Theoretical studies and practical aspects of the problems of taxation of electronic business are highlighted in the works of foreign experts as R.L. Doernberg, B. Friedman, W. Fox, D. Hardesty, L. Hinnekens, W. Hellerstein, J. Lahart, A. Nellen, J. Owens, A. Scupola et al.

A. Scupola, having studied the adaptation of e-commerce to small and medium-sized industrial enterprises, argues that reducing taxes, financial incentives, the speed of informing processes will lead to increase opportunities for adaptation to e-commerce.

IMF specialist V. Tanzi sees e-commerce and e-money as the first two “fiscal termites.” Through e-commerce, in the future, the government may lose more and more of its tax revenues, which is associated with both the virtualization of transactions and the emergence of an increasing number of goods that can be transmitted digitally, and this, of course, makes it difficult to determine the subject of taxation and control implementation of tax processes.

To overcome these problems, V. Tanzi proposes to constantly monitor e-commerce and e-money, introduce special taxes (bit taxes, Tobbin taxes) on foreign transactions and apply other similar measures.

Among Russian scientists and specialists, N. M. Vasilieva, S.K. Ilyichev, A.V. Root, O.V. Medvedev, P. Melnik, I.P. Meleshenko, L.V. Polezharova, K.K. Semkin, A.A. Tedeev, L. Timchenko, L.V. Frolova and others.

L. Timchenko, P. Melnik, arguing that the nationality of the source of income in e-commerce depends on territoriality, because in that case only those incomes that are received in the territory of this state, and incomes received abroad, are taxed in this state not taxable.

As S. Ilyichev notes, levying taxes at the place of registration of a permanent establishment is also difficult for an entity paying taxes on income derived from e-commerce, as this requires knowledge of the tax laws of the jurisdiction in which its permanent establishment is registered and tax authorities who must timely and accurately carry out tax control.

L. Frolova claims that when setting up a single (unified) taxation object for the e-commerce industry at the international level, regardless of tax jurisdiction, double taxation can be avoided.

It should be noted that in the domestic economic literature, the issues of taxation of the implementation of services in the field of electronic business are not adequately covered due to the underdevelopment of this sector of the economy. Available research is not comprehensive. The problems of indirect taxation in this area of activity are practically not investigated. Uzbek scientists also pay insufficient attention to the development of a taxation mechanism for the sale of services in the field of e-commerce, taking into account the dynamism of this type of activity.

The Uzbek economist Z. Abdullaev notes that further improvement of tax regulation in the field of e-commerce should be carried out by taking into account of fundamental principles and in accordance with best practices in tax regulation in this area of developed countries.

RESEARCH METHODOLOGY

The article examines the application of various taxation mechanisms in the Republic of Uzbekistan, including scientific abstraction, analysis and synthesis, induction and deduction, statistical grouping, systematic approach, surveillance, expert evaluation, comparative analysis, factor analysis, tables and other methods were used.

ANALYSIS AND RESULTS

Currently, the tax regime of e-commerce in Uzbekistan is based on the general principles of calculating and collecting tax payments, which do not take into account the peculiarities of this sphere. This approach to taxation, on the one hand, creates the conditions for the withdrawal of huge financial resources due to taxation, and on the other hand, reduces the tax base several times. In addition, there are no effective tax control methods for identifying e-commerce entities that are not registered under tax law with tax authorities that are taxable or actually reduce the amount of revenue received.

Today, it is urgent to develop a national tax model that takes into account the features of e-commerce, including improving the tax control system in this area. Internet business has many opportunities for tax avoidance at the level of a separate agreement or organization, which can significantly reduce the tax base and other mandatory payments of e-commerce entities. In this regard, it is necessary to develop and apply a separate approach to taxation, taking into account the nature of taxation of electronic commerce.

Virtual sector taxation poses a number of challenges for national tax authorities.

The seller does not know the status of the buyer, namely: the buyer is a resident or non-resident, legal or natural person.

It is often difficult to determine where the place of sale of the goods is located, that is, how to determine taxes levied at the place of business. Sometimes there are serious difficulties in figuring out what was delivered: a product or service (for example, in the case of the delivery of software in digital form), because different taxes may apply in relation to goods and services.

There is a serious problem of invalidating transactions via the Internet if the buyer refuses to accept the goods, and in this case, again, problems of a tax nature may arise, among others.

The company sometimes uses servers located in other states to evade part of the taxes, but the activity of such servers can be regarded as the activity of a permanent establishment, and the company will face the need to pay taxes in full. In this regard, a double problem arises: for the state – to force the company to pay all taxes, for the company – to really imagine the amount of tax payments.

To date, the following areas can also be identified as the main problems of taxation of e-commerce entities⁴: the problem of imperfection of tax legislation, problems of tax control in this area, problems of determining (choosing) a possible tax system (s), problems of determining the mandatory elements of taxation, problem of balancing the tax burden in various segments of e-commerce, the problem of double taxation.

In order to improve the methodological base of taxation of income of e-commerce entities, it is necessary to clearly define the content and composition of the tax base, as well as its sources in the legal framework.

To supplement the gaps in the tax legislation of Uzbekistan in the current tax legislation, it is advisable to introduce the concept of electronic services in the new edition of the Tax Code. For example, it is proposed to include it in the Tax Code with the following definition.

Electronic services are understood as the provision of services in an automated form using information technology through the global computer network Internet. The following services should be included in electronic services.

Providing access to information and databases (music and audiovisual products, electronic books, graphic images, etc.) in software and electronic form via the Internet.

Advertising services on the Internet.

- Providing the client with the ability to search and present information about potential buyers.
- Providing an online trading platform via the Internet.
- Storage and processing services, data of a person with Internet access.
- Provision of a domain name, hosting services.
- Access to Internet search engines.

At the same time, for tax purposes, it is necessary to give a clear definition of such concepts as “e-commerce”, “e-money”, “e-wallet”, “digital products”, and also to include the content of electronic commerce and digital products in the Tax Code. These changes would contribute to a more accurate determination of the object of taxation in this area.

The tax code, which is being developed in a new edition, should also clarify the issue of creating a permanent foreign organization in the field of e-commerce. E-commerce businesses typically use servers located in other countries to avoid taxation. However, the operation of such servers is considered a permanent establishment and may entail the payment of all taxes in the manner established by e-commerce entities. We see that in this process there are two problems; to collect all taxes levied on subjects of e-commerce for the state and to find out the exact amount of taxes that can be paid

⁴ Koren A.V. Taxation of e-commerce entities: problems and prospects: a monograph. Vladivostok: VGUES Publishing House, 2011.

for subjects of e-commerce. How and when the status of a permanent establishment of a foreign organization in this area will be clearly defined will allow many foreign enterprises to strive to work in Uzbekistan.

Identification of obligations of relevant state bodies and credit organizations for effective monitoring in the field of e-commerce.

Regular income-generating activities in the field of Internet commerce can be carried out not only by registered taxpayers, but also by entities that have not passed the above procedures. Such activities also require oversight by the competent authority to identify and prosecute illegal business activities. Tax authorities have the right to receive information and can control the movement of funds and e-money transfers in bank accounts of commercial organizations that have bank accounts and e-wallets, and receive information about these activities from credit organizations.

However, if such activity is officially carried out not as an entrepreneur, but as an individual with an e-wallet, it will not be possible to control the electronic flow of such funds. In this process, it is also advisable to establish the obligations of credit organizations to provide information on the revenue of suppliers of electronic products and services of national and foreign enterprises.

It is advisable to adapt the payment procedure in e-commerce to the specifics of the activity.

In the case of cash payments for goods ordered through online trading, such as courier delivering goods to the buyer, there is a risk that the business entity will not give the full proceeds to the cash desk and, thus, reduce the tax base, which causes an increase in loss or concealment object of taxation.

In our opinion, it is desirable to establish payment in e-commerce only in non-cash form. But for this process, conditions have to be created in Uzbekistan, in particular, to introduce new and convenient mechanisms for cashless payments, including online payments for consumers of e-commerce products, increasing the efficiency of electronic payments and mutual settlements between enterprises and commercial banks, offering modern types of payment systems and forms for settlements by organizations, integrating with well-known foreign analogues of national payment systems.

At the same time, taking into account the development of e-commerce in Uzbekistan, it is advisable to introduce remote electronic ATMs based on electronic digital standards to limit the illegal income of entrepreneurs engaged in this activity.

The introduction of remote electronic cash registers in our country will allow, firstly, the further development of e-commerce, and secondly, a number of problems in the taxation of income of enterprises engaged in e-commerce will be eliminated.

Strengthening partnerships with other countries in order to effectively tax cross-border transactions in e-commerce.

There is no single approach for taxing e-commerce in the world. Different countries solve this problem in different ways, which creates certain difficulties for taxpayers in this area. Please note that some cases in e-commerce may also affect the volatility of the tax base. It is well known that consumption taxes are introduced in accordance with the legislation of a particular country, but this complicates the possibility of applying national tax legislation in e-commerce. For example, there may be cases when the value added tax, in particular in the B2C e-commerce model, cannot determine

the location of the entity that is the consumer of the goods, which is responsible for paying consumer tax. In addition, the subject of delivery of goods may also be subject to the tax jurisdiction of the state in which the goods are consumed, and may have corresponding tax liabilities.

It is well known that Internet commerce has the most cross-border character, and its main distinguishing feature is that there are no territorial borders.

The problems of taxation of foreign electronic commerce entities arise in the tax administration of direct taxes related to the definition of a permanent establishment, and indirect taxes related to the calculation and payment of value added tax.

One of the causes of tax administration problems in the process of e-commerce taxation is the lack of a multilateral or bilateral interstate coordination system. We consider that it is necessary to develop the international cooperation in the field of tax administration of electronic commerce.

Encourage the development of e-commerce through the tax system.

Virtualization of transactions and an increase in the number of goods transmitted in digital form further complicate the process of identifying the subject of taxation and monitoring the taxation process.

With the development of modern communication technologies and the development of e-commerce, taxes paid by the subjects of this sphere are insignificant. In these conditions, when e-commerce does not have a significant impact on the formation of the state budget, it is advisable to provide some tax benefits in this area and focus on stimulating and regulating the system.

In this case, low taxes or their abolition as a whole can become an important factor in the development of electronic commerce and the wider use of e-commerce agreements between entities. In this regard, it is advisable to revise the tax policy that applies to e-commerce in Uzbekistan, that is, taxation based on generally accepted principles.

It should be noted that the current state of e-commerce taxation in Uzbekistan is based on countries that have passed the stage of formation of modern information technologies and their use in e-commerce. In order to further accelerate the development of e-commerce in the country, reduce the "shadow economy" in this sector, ensure proper registration and functioning of e-commerce entities, it is preferable to set at lower rate.

We consider that these events would influence the subjects of electronic commerce to legally operate with their state registration, and in the foreseeable future this would ensure a more dynamic development of this business network and would lead to a significant increase in budget revenues.

Organization of a systematic study of the activities of subjects of the digital economy and e-commerce in state tax authorities.

Taking into account the features of the digital economy, in particular e-commerce, as well as the complexity of taxation in this sector, economic and financial transactions are carried out using modern information technologies, including e-commerce, digital products, are subject to mandatory payments and it is advisable to create a unit that will systematically monitor their activities.

Of course, it is important to hire qualified specialists in the field of information and communication, to equip this department with modern information technologies. It is imperative to organize this activity in the near future, as the industry is developing day by day and avoids tax liabilities using new forms and methods. In turn, this process will lead to a lack of adequate tax revenues in this area.

It is necessary to increase the efficiency of tax administration in the field of e-commerce taxation and ensure mutually beneficial activities of taxpayers and tax authorities.

One of the urgent problems of increasing the effectiveness of tax control is the insufficiency or absence of a tax culture. Each taxpayer should consider taxation as a strict obligation and clearly understand that failure to comply with this requirement will have negative consequences. One of the main goals of creating an effective tax system is to increase public awareness of the tax culture and change the mentality of taxpayers. Another important task is to increase the credibility of a bona fide taxpayer in society and its wide promotion among all citizens.

Creation of a mechanism for the identification of business entities involved in electronic commerce.

Issuance of an individual identification number to business entities involved in e-commerce based on international experience. In many EU countries, as well as China, all legal sites have an individual identification number. This sign allows the consumer to check the registration of the subject of electronic commerce with the tax authorities. By purchasing goods (works, services) from such entrepreneurs, the state guarantees their rights and guarantees consumer protection.

Naturally, netizens prefer to buy from companies with this identification number. As a result of this event, it would be possible to create one of the mechanisms for identifying e-commerce entities engaged in illegal business activities.

CONCLUSIONS/RECOMMENDATIONS

Taxation of e-commerce in Uzbekistan is based on the general principles of calculating and collecting tax payments, which do not take into account the peculiarities of this sphere. This approach to the taxation creates the conditions for the withdrawal of huge financial resources due to taxation, reduces the tax base by several times, there are no effective tax control methods for identifying illegal e-commerce entities that are taxable or actually reduce the amount of income received.

Internet business has many opportunities for tax avoidance, both at the level of a separate agreement and at the organization level. In this regard, it is necessary to develop and apply a separate approach to taxation, taking into account the nature of taxation of e-commerce.

The current tax system does not stimulate the expansion of the activities of business entities in the field of electronic commerce, which leads to an increase in the volume of trade through the Internet, which also limits the attraction of investments and modern technologies in the field of application.

In the process of e-commerce taxation, one of the main problems of international tax administration is the lack of a coordination system between the tax authorities of different states. Improving tax administration in e-commerce requires the development of international tax cooperation.

Given the current state of e-commerce development in Uzbekistan, as well as with the goal of further accelerated development of e-commerce in the country, reducing the “shadow economy” in this sector, at this stage it is advisable to introduce a more simplified taxation regime for e-commerce entities at the initial stage and reduce the tax burden for this area.

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